Deutsche Bank AG

Deutsche Bank Q1 2024 Analyst Conference Call

Thursday, 25th April 2024 | 11:00 CEST

Prepared remarks CEO and CFO

Speakers:
Christian Sewing, Chief Executive Officer
James von Moltke, Chief Financial Officer
Ioana Patriniche, Head of Investor Relations

CHRISTIAN SEWING

Slide 1 – Disciplined execution of management agenda

- Thank you, Ioana, and a warm welcome from me. I'm delighted to be discussing our first quarter results with you today
- In February, we laid out a clear path to our 2025 objectives for financial performance and capital distributions and we have delivered in line with our objectives and targets
- Group revenues were 7.8 billion euros. This reflects business growth and franchise momentum, particularly in areas where we have been investing, like our capital-light businesses, while net interest income was more resilient than expected
- This performance underlines the benefit of our complementary business mix
- We are delivering on our cost targets. Adjusted costs were in line with our commitment to a quarterly run rate of around 5 billion euros for this year
- Provision for credit losses remained elevated this quarter, but in line with our expectations and prior guidance considering where we are in the credit cycle
- Portfolio quality remains very solid, and we continue to expect provisions for the year to be at the higher end of our guidance range of 25 to 30 basis points of average loans
- Our return on tangible equity was 8.7% in the first quarter, up from 8.3% in the first quarter last year
- Capital remains robust. Our CET1 ratio was 13.4%, enabling us to remain on track in raising distributions to shareholders and supporting business growth
- Let me unpack some of the drivers of our first quarter results on slide 2

Slide 2 – Delivering against key objectives

- Pre-provision profit was up by 11% year on year to 2.5 billion euros, and more than 20% higher since we launched our *Global Hausbank* strategy
- This reflected continued progress on driving operating leverage, which is a core element of our strategy execution

- We increased revenues in our operating divisions by 3% year on year, while Group revenues were up 1% on a reported basis. Group revenues include Corporate & Other, which tends to add some level of volatility into our revenue line
- As committed, we delivered growth in noninterest revenues, and saw an increase of 11% year on year in commissions and fee income, mainly in divisions where we made investments last year
- As expected, our reported net interest income declined this quarter, but net interest income remained stable in our banking books, and James will shortly talk you through this in more detail
- We reduced adjusted costs by 6% year on year and 5% sequentially to around 5 billion euros, in line with our guidance. This includes bank levies and higher compensation costs, which James will discuss later
- Now let's look at the franchise achievements across all divisions, on slide 3

Slide 3 – Notable franchise achievements driving revenue momentum

- The Corporate Bank delivered strong business growth with a 5% increase in incremental deals won with multinational corporate clients compared to the prior year quarter
- We closed a series of landmark Project Finance transactions and saw strong momentum across the structured credit market in Trust & Agency Services
- We also ranked number 1 in 17 categories in the 2024 Euromoney Trade Finance Survey, including being the Best Trade Finance Bank in Western Europe for the 7th consecutive year
- Demonstrating the strength of our business model, the Investment Bank delivered a strong quarter with notable advances across the franchise
- Investments in talent boosted our Origination and Advisory market share to 2.6%, a 70 basis point increase compared to the full year 2023, with notable gains in LDCM and DCM, elevating our global ranking from 11th to 7th
- Our Advisory franchise benefited from the breadth of our product set in the quarter. In GTCR's acquisition of WorldPay, we provided an integrated offering, from financial advice to debt financing, through to FX and Rates hedging

- The revenue increase in FIC was driven by both Financing and our well-balanced business portfolio, which supports our revenue profile through the cycle
- We maintained our strength in Credit Trading driven by our investments in 2023, particularly in the Flow business, and we also grew revenues in the Americas. These developments further diversified the revenue mix in our portfolio
- The Private Bank benefited from our investments; accelerated business momentum delivered 12 billion euros of net inflows in the first quarter, which makes it 17 consecutive quarters of net inflows, bringing the total assets under management to 606 billion euros, with a strategic shift toward fee-generating investment solutions
- We also continued to strengthen capabilities in strategic areas by increasing coverage of ultra-high net worth individuals in Germany and enhanced offering of investment solutions, including third party exclusive collaborations, which should drive further inflows
- Asset Management delivered another strong quarter of volume growth. Net inflows were 9 billion euros ex-Cash, helping assets under management grow by 45 billion euros to 941 billion euros, over 100 billion euros higher than in the prior year quarter, which we expect to support future revenue generation
- Now let me turn to the progress against our strategic objectives on slide 4

Slide 4 – Strong foundation for strategic execution

- Starting with revenues, we have delivered a compound annual growth rate of 6% since 2021, in line with our raised target range of 5.5 to 6.5% from 2021 to 2025
- As promised, we grew mainly in capital-light businesses with strong growth in Origination & Advisory, as well as in the Private Bank and in Asset Management, supported by high inflows of assets under management, underlying our franchise momentum
- We aim to build on these developments as our franchise expands following our investments in growth initiatives across all business segments
- With net interest income resilient at the start of the year, and growth in noninterest revenues, we feel we are well on our way to our 2025 revenue ambitions

- We continue to deliver on our 2.5-billion-euro Operational Efficiency program; we have completed measures with delivered or expected savings of 1.4 billion euros, nearly 60% of our target, with around 1 billion euros in savings already realized
- The incremental efficiencies this quarter were driven by optimization of our business in Germany and reshaping of our workforce in non-client facing roles
- We have further incremental measures already underway, including re-engineering of our operating model via additional front-to-back improvements of product processes, and harmonization of infrastructure capabilities
- This gives us full confidence that we will deliver on our commitment of a quarterly run rate of adjusted costs of around 5 billion euros in 2024 and total costs of around 20 billion euros in 2025
- Finally, on capital efficiency, we achieved a further 2-billion-euro reduction in RWAs, bringing aggregate reductions to 15 billion euros
- As we are intensifying our work on capital efficiency with further reductions coming from data and process improvements, as well as securitizations, we remain highly confident that we can meet our target range of 25 to 30 billion euros
- Let me conclude with a few words on our strategy, on slide 5

Slide 5 – *Global Hausbank* strategy delivering on commitments

- In a nutshell, we delivered on all key initiatives and targets in the first quarter, and as we progress our *Global Hausbank* strategy, we are on the right path for both our clients and our shareholders
- First, we have a strong and growing franchise. Clients come to us as our well-balanced, complementary businesses provide them with full-service products and solutions
- This supports our revenue growth through different market cycles and drives our market share
- And as we said consistently, clients want a partner that offers them an alternative to large US banks; a partner with our expertise, product range and global network
- Second, we continue to improve our operational efficiency
- We are maintaining our cost discipline, and as always, we are committed to our approach of self-funding our investments

- 2023 marked the peak of our investments, but we continue to invest to reduce the complexity of our organization through improving technology, processes and control capabilities
- Finally, we are absolutely focused on creating value for our shareholders, and as we said in previous quarters, we are fully committed to increasing shareholder distributions, as rewarding our shareholders is a top priority
- We are confident we can increase distributions well beyond our original goal of 8 billion euros in respect of the financial years 2021 to 2025, and we expect to continue to grow dividends and make incremental share buybacks
- With that, let me hand over to James

JAMES VON MOLTKE

<u>Slide 7 – Key performance indicators</u>

- Thank you, Christian
- Let me start with a few key performance indicators on slide 7, and place them in the context of our 2025 targets
- Christian mentioned our continued business momentum which resulted in revenue growth of 6% on a compound basis for the last twelve months relative to 2021, the mid-point of our recently upgraded revenue growth target range
- A cost/income ratio of 68% in the first quarter shows a 7 percentage point improvement against 2023, driven by operating leverage from sustained revenue growth and cost management
- Our return on tangible equity was 8.7% for the first quarter
- Our capital position remained robust with the CET1 ratio at 13.4% this quarter after absorbing the impact of the share repurchase and the deduction for future distributions in line with revised EBA rules, reflecting our payout ratio policy
- Our liquidity metrics also remained strong; the liquidity coverage ratio was 136%, above our target of around 130%, and the net stable funding ratio was 123%
- In short, our performance in the period reaffirms our resilience and our confidence in reaching our 2025 targets
- With that let me turn to the first quarter highlights on slide 8

Slide 8 – Q1 2024 highlights

- Group revenues were 7.8 billion euros, up 1% on the first quarter of 2023 or 2% excluding specific items
- Noninterest expenses were 5.3 billion euros, down 3% year on year
- Nonoperating costs this quarter included litigation charges of 166 million euros and 95 million euros of restructuring and severance charges
- Adjusted costs decreased6% year on year, mainly due to lower bank levies
- Provision for credit losses was 439 million euros or 37 basis points of average loans, and I will discuss this in more detail shortly
- We generated a profit before tax of 2 billion euros, up 10% year on year, and a net profit of 1.5 billion euros, also up 10% compared to the prior year quarter
- Diluted earnings per share was 69 cents in the first quarter and tangible book value per share was 29 euros and 26 cents, up 7% year on year
- Our tax rate in the quarter was 29%
- Let me now turn to some of the drivers of these results

Slide 9 – Net interest margin (NIM) / Net interest income (NII)

- Let me start with a review of our net interest income on slide 9
- Net interest income for the Group decreased by approximately 100 million euros compared to the previous quarter, with the reduction being driven by accounting effects. As a reminder, these effects are revenue neutral at the Group level as the decrease in NII is offset by an increase in noninterest revenues
- Excluding these accounting effects, banking book NII was essentially flat as a decline in the Private Bank was offset by an increase in the Corporate Bank and lower funding costs in the Investment Bank and Corporate & Other
- The reduction in the Private Bank net interest margin was largely driven by the non-recurrence of favorable episodic effects in the fourth quarter of 2023, as well as the ongoing impact of beta normalization

- On an absolute basis, net interest income in the Private Bank is in line with the plans on which our NII guidance from last quarter was based
- The increase in Corporate Bank NII was due to a positive one-off impact from a CLO recovery which was accounted as NII, with deposit betas showing a steady increase in line with our assumptions
- We expect to see a Corporate Bank NII decline in the coming quarters as betas continue to normalize
- NII in FIC Financing was essentially flat quarter on quarter
- We are starting to see margin expansion on the asset side which, if it continues, will help offset margin compression from beta normalization
- In summary, the development in the first quarter reinforces our expectation that we will meet or improve on our prior guidance of a 600-million-euro reduction in banking book NII for 2024 relative to the prior year
- With that, let's turn to adjusted cost development, on slide 10

Slide 10 – Adjusted costs – Q1 2024 (YoY)

- Adjusted costs were around 5 billion euros for the quarter, specifically 5.02 billion euros excluding bank levies, up 3% year on year but down 4% sequentially, in line with our guidance
- We were disciplined in most expense categories and the modest increase was primarily driven by higher compensation and benefit costs reflecting inflationary pressures on fixed remuneration, increases in internal workforce after our targeted investments in talent throughout 2023, and higher performance-related compensation
- The increase in compensation and benefit costs was partially offset by workforce optimization
- Let's now turn to provision for credit losses on slide 11

Slide 11 – Provision for credit losses

- Provision for credit losses in the first quarter was 439 million euros, equivalent to 37 basis points of average loans
- The decline compared to the previous quarter was driven by moderate stage 1 and 2 releases of 32 million euros due to improved macroeconomic forecasts and model recalibration effects which occurred in the prior quarter

- Stage 3 provisions at 471 million euros remained elevated at a similar level to the previous quarter. This included continued weakness in the commercial real estate sector, mainly impacting the Investment Bank, and the continued impact of operational backlogs in the Private Bank
- Our full year guidance for provisions is unchanged at the higher end of the range of 25 to 30 basis points of average loans
- This reflects our expectation that provisions will remain elevated in the first half of the year and should gradually reduce in the second half
- The decline is expected to be driven by an improvement in the CRE sector and the partial reversal of backlog-related provisions in the Private Bank
- Before we move to performance in our businesses, let me turn to capital on slide 12

<u>Slide 12 – Capital metrics</u>

- Our first quarter Common Equity Tier 1 ratio came in at 13.4%, compared to 13.7% at year-end 2023
- We had a strong capital supply this quarter and the sequential decline was driven by our distribution actions and plans, together with business growth
- 19 basis points of the decrease reflects the ECB approval for our 675-million-euro share buyback which we commenced in March
- Half of first quarter net income was deducted for future capital distributions, in line with our 50% payout ratio guidance, with the remainder supporting other deductions
- 12 basis points of the decrease came from RWA growth
- The increase in RWA is net of reductions due to RWA Optimization achieved during the quarter
- At the end of the first quarter our leverage ratio was 4.5%, 8 basis points lower compared to the previous quarter
- The decline was primarily driven by lower Tier 1 capital, in line with the movement in CET1 capital, with leverage exposure broadly unchanged
- With that, let's now turn to performance in our businesses, starting with the Corporate Bank on slide 14

Slide 14 – Corporate Bank

- Corporate Bank revenues in the first quarter were 1.9 billion euros, essentially flat sequentially and 5% lower compared to the prior year quarter which marked the revenue peak of the current rate cycle
- Year on year, the revenue decrease reflected the normalization of deposit revenues, lower loan net interest income and the discontinuation of remuneration of minimum reserves by the ECB, predominantly impacting our Corporate Treasury Services businesses, partly offset by 3% higher commissions and fee income
- On a sequential basis, the revenue development mainly reflected lower overnight NII
- Loans declined by 5 billion euros compared to the prior year quarter and remained flat sequentially reflecting muted demand and our continued selective balance sheet deployment
- Deposits were 31 billion euros higher year on year and over 10 billion euros higher than in the fourth quarter mainly driven by higher term deposits
- Provision for credit losses was 63 million euros, or 22 basis points of average loans, essentially flat versus the prior year, reflecting resilience of the Corporate Bank loan book
- Noninterest expenses decreased sequentially driven by lower internal service cost allocations and the FDIC special assessment charge in the prior quarter, but increased year on year due to higher litigation costs
- This resulted in a post-tax return on tangible equity of 15.4% and a cost/income ratio of 64%
- I'll now turn to the Investment Bank on slide 15

Slide 15 – Investment Bank

- Revenues for the first quarter were 13% higher year on year on a reported basis, or 14% when excluding specific items
- Revenues in Fixed Income & Currencies increased by 7% versus the prior year quarter, demonstrating the underlying diversification of the business
- Financing performance was solid, with revenues up 14% year on year reflecting a robust carry profile, and strong levels of issuance and securitization fees. As this is the first time we are disclosing Financing

revenues separately, you can find further information on the composition of the business in the appendix on slide 38

- Credit Trading revenues were again significantly higher year on year, as the business continued to build on the successful execution of our strategic initiatives and investments made through 2023, specifically in the Flow business
- Emerging Markets revenues were also significantly higher, with revenues up across all three regions. Client activity was up year on year aided by the investments in Latin America
- Foreign Exchange revenues were significantly higher, benefitting from the non-repeat of the interest rate market dislocation seen in the prior year. The impact of a refocused business model with investments into controls and technology are also beginning to materialize, and collaboration with the wider franchise is driving cross-sell revenues in the quarter
- Rates revenues were significantly lower when compared to a very strong prior year quarter and reflected a reduction in market volatility
- Moving to Origination & Advisory, revenues were up 54% when compared to the prior year quarter, with the business gaining market share in a growing fee pool environment, both year on year and versus the prior quarter
- Debt Origination revenues were significantly higher benefitting from a material improvement in the Leveraged Debt market conditions, while Investment Grade debt issuance activity was also higher year on year
- Advisory revenues increased versus the prior year despite a reduction in the industry fee pool. The announced pipeline for the second quarter also remains strong
- Noninterest expenses and adjusted costs are lower year on year as a result of significantly lower bank levy charges, partially offset by higher compensation costs; reflecting targeted investments in 2023, including the Numis acquisition
- The loan balance increase versus the prior quarter was primarily driven by increased activity in Debt Origination, linked to the recovery seen in the industry this quarter, with a smaller increase in Financing
- Provision for credit losses was 150 million euros, or 59 basis points of average loans. The increase versus the prior year was driven by an increase in stage 3 impairments, primarily in the CRE portfolio
- Turning to the Private Bank on slide 16

Slide 16 – Private Bank

- We implemented a new reporting structure this quarter reflecting our client segmentation. For further details please see slide 39 in the appendix
- The division reported revenues of 2.4 billion euros including higher revenues from investment products and lending, which were more than offset by continued higher funding costs, including the impact of minimum reserve remuneration, and the Group neutral impact of certain hedging costs now allocated to the business, previously held in Treasury
- Sequentially, revenues remained stable driven by higher revenues from investment products in line with our strategy to grow commissions and fee income and reflecting seasonality
- We saw continued strong business momentum with net inflows into assets under management of 12 billion euros mainly in investment products in Wealth Management and Private Banking, particularly in Germany
- Revenues in Personal Banking were impacted by the aforementioned higher funding and hedging costs for our lending books partially offset by better deposit revenues in Germany
- Wealth Management and Private Banking achieved higher revenues from lending and investment products offset by lower deposit revenues in the international businesses
- The Private Bank has continued its transformation with nearly 80 branch closures and headcount reductions of more than 800 in the last 12 months, benefitting from prior investments
- Together with normalized investment spend and lower bank levies these initiatives drove adjusted costs down by 6%
- This trajectory includes the impact of higher service remediation costs which is expected to roll off over the remaining quarters of the year
- Pre-tax profit increased by 24% driven primarily by cost reductions
- Provision for credit losses in the quarter was affected by elevated workout activity in Wealth Management as well as continued temporary effects from the operational backlog in Personal Banking
- Overall, the quality of our portfolios remains intact. The previous year quarter included single name losses in Wealth Management

Slide 17 – Asset Management

- Let me continue with Asset Management on slide 17
- My usual reminder, the Asset Management segment includes certain items that are not part of the DWS stand-alone financials
- Assets under management increased by 45 billion euros to 941 billion euros in the quarter, a record high. The increase was attributable to positive market appreciation of 30 billion euros, net inflows and positive FX effects
- Net inflows of 8 billion euros were primarily in Passive once again, continuing the positive momentum in Xtrackers that we have seen throughout last year
- The business remains the number two ETP provider in EMEA by net inflows, with growth outpacing the market and hence gaining further market share
- Constructive equity markets are influencing investors to switch into Passive strategies, but despite this we have also reported positive net inflows in Active products, mainly driven by Fixed Income and quantitative strategies
- Revenues increased by 5% versus the prior year. This was primarily from higher management fees of 592 million euros, resulting from higher fees in Liquid products due to increasing average assets under management
- Noninterest expenses were 5% higher, while adjusted costs were 3% higher than the prior year
- Compensation and benefits costs were higher mainly driven by variable compensation due to DWS' share price increase, while non-compensation costs were effectively flat, despite inflationary pressures
- Profit before tax has improved by 6% from the prior year period, mainly reflecting higher revenues
- The cost/income ratio for the quarter was 74% and return on tangible equity was 14.5%, both improving from the fourth quarter of last year
- Moving to Corporate & Other on slide 18

Slide 18 – Corporate & Other

- Corporate & Other reported a pre-tax loss of 302 million euros this quarter, versus the equivalent pre-tax loss of 208 million euros in the first quarter of 2023
- Revenues were negative 140 million euros this quarter, primarily driven by funding and liquidity impacts and other centrally retained items
- Valuation and timing differences were positive 2 million euros, driven by negative net impacts from interest rate movements offset by partial reversion of prior period losses. This compares to positive 239 million euros in the prior year quarter
- The pre-tax loss associated with legacy portfolios was 96 million euros driven primarily by litigation charges and expenses
- At the end of the first quarter, risk-weighted assets stood at 33 billion euros, including 12 billion euros of operational risk RWA. In aggregate, RWAs have reduced by 11 billion euros since the prior year quarter
- Leverage exposure was 36 billion euros at the end of the first quarter, essentially flat to the prior year quarter
- Finally, let me turn to the Group outlook on slide 19

Slide 19 – Outlook

- The first quarter showed that the expected benefits of our investments are materializing and will help to drive growth in noninterest revenues, while we have limited the downside on our net interest income given our interest rate hedging activity
- This demonstrates that our businesses are positioned for further growth, contributing to the delivery of our revenue target of around 30 billion euros in 2024
- We affirm our target to maintain our quarterly run-rate of around 5 billion euros of adjusted costs this year and around 20 billion euros for the full year
- We expect provisions for the year to come at the higher end of our guidance range of 25 to 30 basis points of average loans
- With our CET1 ratio of 13.4% we are well positioned and will continue to focus on distributions, with a targeted payout ratio of 50% for the financial year 2024

- And finally, as Christian said, our full focus remains on our progress, through the execution of our strategy and the delivery our 2025 targets
- With that, let me hand back to Ioana and we look forward to your questions